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Public Service Commission

June 23, 2003

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James H. Bates  
Service Management Systems, Inc.  
235 Hammock Shore Drive  
Melbourne Beach, FL 32951  
**Re: Docket No. 021228-WS, Staff Assisted Rate Case for Service Management Systems, Inc.,  
in Brevard County**

Dear Mr. Bates:

This letter is in response to the letter prepared by the utility's counsel dated June 20, 2003. Staff has read through the outlined topics and changes of position by the utility and wishes to offer a preliminary response. Each of these topics will be evaluated thoroughly by staff for possible revisions to staff's final recommendation.

The salary and responsibilities of Mr. Chupka are currently being reviewed by staff. It was unclear that Mr. Chupka performed tasks which would not be taken over by Mr. Scottie, and therefore staff is investigating possible alternatives, including the additional cost estimate submitted by Accurate Utilities, Inc. It was also brought to staff's attention during a recent visit to the service area that Mr. Chupka would in fact be retained for the reason of performing these duties on a continuing basis. Should this be the case, staff could simply adjust for Mr. Chupka's current pay rate for continued operation duties.

In staff's preliminary report dated April 28, 2003, some repairs which staff believed to extend the life of utility assets were in fact capitalized and non-recurring items were amortized over five years. Because of the concern expressed by the utility, staff is currently reviewing such repairs and will reevaluate those repairs which staff previously capitalized or amortized. Staff would like to point out that while some repairs may be recurring, those that extend the useful life of a utility asset will remain capitalized.

The wastewater treatment plant depreciation expense and calculations have been reviewed by staff and no mathematical errors were found. Staff calculated depreciation from Commission approved balances in Order No. PSC-95-1417-FOF-WS, issued November 21, 1995, forward through the end of the 2002 test year. While depreciation was accumulated on all wastewater plant in the test year, a major portion of that plant became fully depreciated as a result. Because

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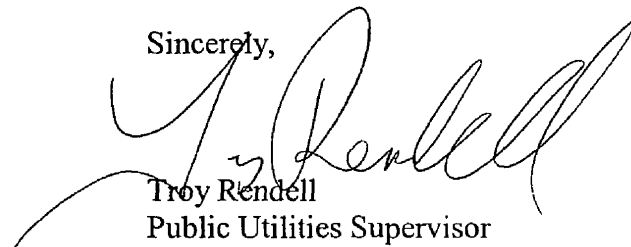
depreciation expense is calculated for rate setting purposes on a going-forward basis, the depreciation expense is greatly reduced from that incurred during the 2002 test year.

The concerns outlined in utility counsel's letter regarding the pay rate of management are noted. However, staff reviews many factors when evaluating salary requirements of utility personnel. These factors include the number of hours designated for utility responsibilities, complexity and volume of tasks performed, statistical data, and past Commission approved salaries for similar utility positions. In addition, input on the quality of utility service received from customers within the service territory plays a role in the amount of salary expense recommended to be recovered through rates. The utility's requested pay rate is noted, but staff believes this amount to be unreasonable for rate payers to bear.

In addition to the above topics, staff would also like to request that the utility provide the Commission with rate case expenses incurred by the utility up to this point. In addition, an estimate should be provided which reflects the anticipated costs associated with this staff assisted rate case from this time forward through the completion of the agenda conference. In order to maintain the statute mandated time frame of the staff assisted rate case, this requested information must be received by staff no later than June 30, 2003, in order to be considered for staff's final recommendation which is to be filed July 24, 2003.

While no exact revisions have been made by staff at this time, please understand that each of the utility's topics and concerns are being evaluated and will be discussed in staff's final recommendation. If you have any questions regarding the above matters, please contact Tony Sargent at (850) 413-6968, or Ryan Fitch at (850) 413-6928.

Sincerely,



Troy Rendell  
Public Utilities Supervisor

TR:ts

cc: Division of Economic Regulation (Willis, Sargent, Fitch)  
Office of General Counsel (Jaeger)  
Division of Commission Clerk and Administrative Services (021228-WS)  
F. Marshall Deterding, Esq.